



**ANNUAL STATEMENT**  
**For the Year Ending December 31, 2004**  
**OF THE CONDITION AND AFFAIRS OF THE**  
**Preferred Health Partnership of Tennessee, Inc.**

NAIC Group Code	1253 (Current Period)	1253 (Prior Period)	NAIC Company Code	95749	Employer's ID Number	62-1546662
Organized under the Laws of	Tennessee		State of Domicile or Port of Entry	Tennessee		
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health[ ] Dental Service Corporation[ ] Other[ ]		Property/Casualty[ ] Vision Service Corporation[ ] Is HMO Federally Qualified? Yes[X] No[ ]		Hospital, Medical & Dental Service or Indemnity[ ] Health Maintenance Organization[X]	
Incorporated	01/01/1994		Commenced Business	01/01/1994		
Statutory Home Office	1420 Centerpoint Blvd. (Street and Number)		Knoxville , TN 37932 (City, or Town, State and Zip Code)			
Main Administrative Office			1420 Centerpoint Blvd. (Street and Number)			
	Knoxville, TN 37932 (City or Town, State and Zip Code)		(865)670-7282 (Area Code) (Telephone Number)			
Mail Address	1420 Centerpoint Blvd. (Street and Number or P.O. Box)		Knoxville, TN 37932 (City, or Town, State and Zip Code)			
Primary Location of Books and Records			1420 Centerpoint Blvd. (Street and Number)			
	Knoxville, TN 37932 (City, or Town, State and Zip Code)		(865)670-7282 (Area Code) (Telephone Number)			
Internet Website Address						
Statutory Statement Contact	Melissa R Anderson (Name)		(865)670-7282 (Area Code)(Telephone Number)(Extension)			
	manders1@covhlth.com (E-Mail Address)		(865)470-7461 (Fax Number)			
Policyowner Relations Contact			1420 Centerpoint Blvd. (Street and Number)			
	Knoxville, TN 37932 (City, or Town, State and Zip Code)		(865)470-7470 (Area Code) (Telephone Number)(Extension)			

**OFFICERS**

Name	Title
Lance K. Hunsinger	President
Jeffery S. Collake	Chief Financial Officer
Jeffery S. Collake	Secretary

**OTHERS**

**DIRECTORS OR TRUSTEES**

Kenneth Truman Creed  
Michael McKay Dudley  
Randolph Murphree Lowry MD  
Cletus Joseph McMahon Jr. MD  
David A. Nowiski  
Anthony L. Spezia  
Sandra L. Mathy #

Thomas Rowe Bell  
Daniel J. David MD  
Marvin H. Eichorn  
Kenneth Frederick Luckman MD  
Michael Earl Mitchell MD  
Francis H. Olmstead Jr.  
Dean M. Turner MD #

State of Tennessee  
County of Knox ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
Lance K. Hunsinger	Jeffery S. Collake	Jeffery S. Collake
(Printed Name)	(Printed Name)	(Printed Name)
President	Chief Financial Officer	Secretary
(Title)	(Title)	(Title)

Subscribed and sworn to before me this	a. Is this an original filing?	Yes[ ] No[X]
_____ day of _____, 2005	b. If no,	1
	1. State the amendment number	05/23/2005
	2. Date filed	24
	3. Number of pages attached	

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(Notary Public Signature)

ASSETS

		Current Year			Prior Year
		1	2	3	4
		Assets	Nonadmitted Assets	Net Admitted Assets (Cols.1-2)	Net Admitted Assets
1.	Bonds (Schedule D) .....	58,499,929		58,499,929	47,651,741
2.	Stocks (Schedule D)				
2.1	Preferred stocks .....				
2.2	Common Stocks .....				
3.	Mortgage loans on real estate (Schedule B):				
3.1	First liens .....				
3.2	Other than first liens .....				
4.	Real estate (Schedule A):				
4.1	Properties occupied by the company (less \$..... encumbrances) .....				
4.2	Properties held for the production of income (less \$..... encumbrances) .....				
4.3	Properties held for sale (less \$..... encumbrances) .....				
5.	Cash (\$.....40,995 Schedule E Part 1), cash equivalents (\$..... Schedule E Part 2) and short-term investments (\$..... Schedule DA) .....	40,995		40,995	5,759,406
6.	Contract loans (including \$..... premium notes) .....				
7.	Other invested assets (Schedule BA) .....				
8.	Receivable for securities .....				
9.	Aggregate write-ins for invested assets .....				
10.	Subtotals, cash and invested assets (Lines 1 to 9) .....	58,540,924		58,540,924	53,411,147
11.	Investment income due and accrued .....	898,391		898,391	888,798
12.	Premiums and considerations				
12.1	Uncollected premiums and agents' balances in the course of collection .....				
12.2	Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$..... earned but unbilled premiums) .....				
12.3	Accrued retrospective premiums .....				
13.	Reinsurance:				
13.1	Amounts recoverable from reinsurers .....				
13.2	Funds held by or deposited with reinsured companies .....				
13.3	Other amounts receivable under reinsurance contracts .....				
14.	Amounts receivable relating to uninsured plans .....				
15.1	Current federal and foreign income tax recoverable and interest thereon .....				
15.2	Net deferred tax asset .....				
16.	Guaranty funds receivable or on deposit .....				
17.	Electronic data processing equipment and software .....				
18.	Furniture and equipment, including health care delivery assets (\$.....) .....				
19.	Net adjustment in assets and liabilities due to foreign exchange rates .....				
20.	Receivables from parent, subsidiaries and affiliates .....	2,547,999	36,464	2,511,535	4,727,724
21.	Health care (\$.....) and other amounts receivable .....				
22.	Other assets nonadmitted .....				
23.	Aggregate write-ins for other than invested assets .....	54,656		54,656	
24.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23) .....	62,041,970	36,464	62,005,506	59,027,669
25.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....				
26.	Total (Lines 24 and 25) .....	62,041,970	36,464	62,005,506	59,027,669
DETAILS OF WRITE-INS					
0901	.....				
0902	.....				
0903	.....				
0998.	Summary of remaining write-ins for Line 9 from overflow page .....				
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above) .....				
2301.	A/R Risk Share .....				
2302.	A/R State Admin .....	54,656		54,656	
2303	.....				
2398.	Summary of remaining write-ins for Line 23 from overflow page .....				
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) .....	54,656		54,656	

LIABILITIES, CAPITAL AND SURPLUS

		Current Year			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less \$..... reinsurance ceded) .....	1,000,000		1,000,000	1,421,510
2.	Accrued medical incentive pool and bonus amounts .....				
3.	Unpaid claims adjustment expenses .....	30,000		30,000	11,290
4.	Aggregate health policy reserves .....	10,826,641		10,826,641	10,826,641
5.	Aggregate life policy reserves .....				
6.	Property/casualty unearned premium reserves .....				
7.	Aggregate health claim reserves .....				
8.	Premiums received in advance .....				
9.	General expenses due or accrued .....	9,805,245		9,805,245	11,498,675
10.1	Current federal and foreign income tax payable and interest thereon (including \$..... on realized capital gains (losses)) .....				
10.2	Net deferred tax liability .....				
11.	Ceded reinsurance premiums payable .....				
12.	Amounts withheld or retained for the account of others .....				
13.	Remittance and items not allocated .....				
14.	Borrowed money (including \$..... current) and interest thereon \$..... (including \$..... current) .....				
15.	Amounts due to parent, subsidiaries and affiliates .....				
16.	Payable for securities .....				
17.	Funds held under reinsurance treaties with (\$..... authorized reinsurers and \$..... unauthorized reinsurers) .....				
18.	Reinsurance in unauthorized companies .....				
19.	Net adjustments in assets and liabilities due to foreign exchange rates .....				
20.	Liability for amounts held under uninsured accident and health plans .....				
21.	Aggregate write-ins for other liabilities (including \$..... current) .....	14,082,990		14,082,990	14,082,990
22.	Total liabilities (Lines 1 to 21) .....	35,744,876		35,744,876	37,841,106
23.	Common capital stock .....	X X X	X X X	1,000	1,000
24.	Preferred capital stock .....	X X X	X X X		
25.	Gross paid in and contributed surplus .....	X X X	X X X	61,379,848	61,379,848
26.	Surplus notes .....	X X X	X X X		
27.	Aggregate write-ins for other than special surplus funds .....	X X X	X X X		
28.	Unassigned funds (surplus) .....	X X X	X X X	(35,120,218)	(40,194,285)
29.	Less treasury stock, at cost:	X X X	X X X		
29.1	..... shares common (value included in Line 23 \$.....)	X X X	X X X		
29.2	..... shares preferred (value included in Line 24 \$.....)	X X X	X X X		
30.	Total capital and surplus (Lines 23 to 28 minus Line 29) .....	X X X	X X X	26,260,630	21,186,563
31.	Total Liabilities, capital and surplus (Lines 22 and 30) .....	X X X	X X X	62,005,506	59,027,669
DETAILS OF WRITE-INS					
2101.	Accrued Run-Out Costs .....	14,082,990		14,082,990	14,082,990
2102.	Grier Decree Accrual .....				
2103.	Reserve for Transplants .....				
2198.	Summary of remaining write-ins for Line 21 from overflow page .....				
2199.	TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above) .....	14,082,990		14,082,990	14,082,990
2701	.....	X X X	X X X		
2702	.....	X X X	X X X		
2703	.....	X X X	X X X		
2798.	Summary of remaining write-ins for Line 27 from overflow page .....	X X X	X X X		
2799.	TOTALS (Lines 2701 through 2703 plus 2798) (Line 27 above) .....	X X X	X X X		

STATEMENT OF REVENUE AND EXPENSES

		Current Year		Prior Year
		1 Uncovered	2 Total	3 Total
1.	Member Months .....	X X X .....	1,585,507	1,576,120
2.	Net premium income (including \$..... non-health premium income) .....	X X X .....		195,632
3.	Change in unearned premium reserves and reserve for rate credits .....	X X X .....		
4.	Fee-for-service (net of \$..... medical expenses) .....	X X X .....		
5.	Risk revenue .....	X X X .....		
6.	Aggregate write-ins for other health care related revenues .....	X X X .....	4,031,669	1,249,239
7.	Aggregate write-ins for other non-health revenues .....	X X X .....		
8.	Total revenues (Lines 2 to 7) .....	X X X .....	4,031,669	1,444,871
Hospital and Medical:				
9.	Hospital/medical benefits .....			
10.	Other professional services .....	(581,562)	(581,562)	(48,912)
11.	Outside referrals .....			
12.	Emergency room and out-of-area .....			
13.	Prescription drugs .....	(34,858)	(34,858)	(1,287,199)
14.	Aggregate write-ins for other hospital and medical .....	(250,200)	(250,200)	1,885,287
15.	Incentive pool, withhold adjustments and bonus amounts .....			
16.	Subtotal (Lines 9 to 15) .....	(866,620)	(866,620)	549,176
Less:				
17.	Net reinsurance recoveries .....			
18.	Total hospital and medical (Lines 16 minus 17) .....	(866,620)	(866,620)	549,176
19.	Non-health claims .....			
20.	Claims adjustment expenses, including \$..... cost containment expenses .....			
21.	General administrative expenses .....			
22.	Increase in reserves for life and accident and health contracts (including \$..... increase in reserves for life only) .....			
23.	Total underwriting deductions (Lines 18 through 22) .....	(866,620)	(866,620)	549,176
24.	Net underwriting gain or (loss) (Lines 8 minus 23) .....	X X X .....	4,898,289	895,695
25.	Net investment income earned (Exhibit of Net Investment Income, Line 17) .....		2,231,998	3,003,257
26.	Net realized capital gains (losses) .....		153,673	611,584
27.	Net investment gains (losses) (Lines 25 plus 26) .....		2,385,671	3,614,841
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....) (amount charged off \$.....)] .....			
29.	Aggregate write-ins for other income or expenses .....			
30.	Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29) .....	X X X .....	7,283,960	4,510,536
31.	Federal and foreign income taxes incurred .....	X X X .....	2,209,893	1,295,965
32.	Net income (loss) (Lines 30 minus 31) .....	X X X .....	5,074,067	3,214,571
DETAILS OF WRITE-INS				
0601.	Other Revenue .....	X X X .....		135
0602.	State Admin Revenue .....	X X X .....	4,031,669	1,249,104
0603	.....	X X X .....		
0698.	Summary of remaining write-ins for Line 6 from overflow page .....	X X X .....		
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) .....	X X X .....	4,031,669	1,249,239
0701	.....	X X X .....		
0702	.....	X X X .....		
0703	.....	X X X .....		
0798.	Summary of remaining write-ins for Line 7 from overflow page .....	X X X .....		
0799.	TOTALS (Line 0701 through 0703 plus 0798) (Line 7 above) .....	X X X .....		
1401.	Recoveries .....	(496,848)	(496,848)	(704,659)
1402.	Risk Share .....	246,648	246,648	2,589,946
1403	.....			
1498.	Summary of remaining write-ins for Line 14 from overflow page .....			
1499.	TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above) .....	(250,200)	(250,200)	1,885,287
2901	.....			
2902	.....			
2903	.....			
2998.	Summary of remaining write-ins for Line 29 from overflow page .....			
2999.	TOTALS (Line 2901 through 2903 plus 2998) (Line 29 above) .....			

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1	2
		Current Year	Prior Year
CAPITAL & SURPLUS ACCOUNT			
33.	Capital and surplus prior reporting year .....	21,186,563	17,929,640
GAINS AND LOSSES TO CAPITAL & SURPLUS			
34.	Net income or (loss) from Line 32 .....	5,074,067	3,214,571
35.	Change in valuation basis of aggregate policy and claim reserves .....		
36.	Net unrealized capital gains and losses .....		
37.	Change in net unrealized foreign exchange capital gain or (loss) .....		
38.	Change in net deferred income tax .....		
39.	Change in nonadmitted assets .....	0	42,352
40.	Change in unauthorized reinsurance .....		
41.	Change in treasury stock .....		
42.	Change in surplus notes .....		
43.	Cumulative effect of changes in accounting principles .....		
44.	Capital Changes:		
44.1	Paid in .....		
44.2	Transferred from surplus (Stock Dividend) .....		
44.3	Transferred to surplus .....		
45.	Surplus adjustments:		
45.1	Paid in .....		
45.2	Transferred to capital (Stock Dividend) .....		
45.3	Transferred from capital .....		
46.	Dividends to stockholders .....		
47.	Aggregate write-ins for gains or (losses) in surplus .....		
48.	Net change in capital and surplus (Lines 34 to 47) .....	5,074,068	3,256,923
49.	Capital and surplus end of reporting year (Line 33 plus 48) .....	26,260,631	21,186,563
DETAILS OF WRITE-INS			
4701.	Miscellaneous .....		
4702	.....		
4703	.....		
4798.	Summary of remaining write-ins for Line 47 from overflow page .....		
4799.	TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above) .....		

Report #2A: TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES

	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Member Months	0	0	186
<b>REVENUES:</b>			
1. TennCare Capitation	0	0	195,632
2. Investment	565,054	2,385,671	3,614,841
3. Other Revenue	0	0	135
State Admin Revenue	3,509,273	4,031,669	1,249,104
4. TOTAL REVENUES (Lines 1 to 3)	4,074,327	6,417,340	5,059,712
<b>EXPENSES:</b>			
Medical and Hospital Services:			
5. Capitated Physician Services	0	0	(17,895)
6. Fee-For-Service Physician Services	0	0	0
7. Inpatient Hospital Services	(670,121)	(581,562)	(31,017)
8. Outpatient Services	0	0	0
9. Emergency Room Services	0	0	0
10. Mental Health Services	0	0	0
11. Dental Services (Capitated & FFS)	0	0	0
12. Vision Services (Capitated , FFS & Opthamology)	0	0	0
13. Pharmacy Services (Capitated & FFS)	(15,694)	(34,858)	(1,287,199)
14. Home Health Services	0	0	0
15. Chiropractic Services	0	0	0
16. Radiology Services	0	0	0
17. Laboratory Services	0	0	0
18. Durable Medical Equipment Services	0	0	0
19. Transportation Services (Capitated)	0	0	0
20. Outside Referrals	0	0	0
21. Medical Incentive Pool and Withhold Adjustments	0	0	0
22. Occupancy, Depreciation, and Amortization	0	0	0
23. <b>Other Medical and Hospital Services (Provide Detail)</b>			
Surgery - Orthopedic - FFS Office	0	0	0
MCO Delegated Services	0	0	0
Allergy & Immunology FFS Office & Other	0	0	0
Counselors/Therapists	0	0	0
Otolaryngology - FFS Office	0	0	0
Anesthesiology - FFS Hosp & Other	0	0	0
Gastroenterology	0	0	0
Preventive Medicine	0	0	0
Ped Emergency Medicine - FFS Hospital	0	0	0
IBNR	0	0	0
Risk Share	246,648	246,648	2,589,946
24. Subtotal (Lines 5 to 23)	(439,166)	(369,772)	1,253,835
25. Reinsurance Expenses Net of Recoveries	0	0	0
LESS:	0		
26. Copayments	0	0	0
27. Subrogation	0	0	0
27a Recoveries	42,499	496,848	704,659
28. Coordination of Benefits	0	0	0
29. Subtotal (Lines 26 to 28)	42,499	496,848	704,659
30. <b>TOTAL MEDICAL AND HOSPITAL (Lines 24 and 25 less 29)</b>	(481,665)	(866,619)	549,176

Report #2A (Continued): TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES			
	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Administration:			
31. Compensation (Including Allocated Costs)	2,050,340	8,899,639	9,711,431
32. Marketing (Including Allocated Costs)	9,865	16,074	6,931
33. Premium Tax Expense	104,017	413,846	440,775
34. Occupancy, Depreciation and Amortization (Including Allocated Costs)	218,685	847,432	948,249
35. Other Administration (Provide detail)			
Printing	6,355	178,877	271,087
Rent/Utilities	0	0	0
Franchise, Excise & Property Taxes	0	0	0
Postage	106,220	300,464	153,139
Legal Fees	4,473	20,953	6,993
Liquidated Damages	300,000	1,207,740	1,203,280
Outside Services	124,105	449,580	329,948
Board & Committee Fees	0		0
Auditing, actuarial and other consulting services	0		0
Books & Subscriptions	972	1,929	3,328
Dues, Fees & Licenses	156	4,015	53,148
Education & Seminars	(150)	2,648	2,134
Meals & Entertainment	202	1,363	1,627
Office Supplies	925	1,804	1,622
Minor Equipment	0		22
Travel	142	4,783	6,068
Wellness Program	0		0
Leases & Rentals of equipment	0		0
Repairs/Maintenance Agreements	0	387	902
Telephone/Beepers/Cellular Phones	23	140	124
Temp/Contract Personnel	1,156	14,801	56,759
Provision for Loss Contracts	0		0
Risk Banding Reserve	0		(4,053,559)
Program Run Out Expense	0		0
State Admin Revenue	(1,691,596)	(16,660,565)	(17,059,131)
Miscellaneous Expense	(3,036,793)	(3,032,525)	655,976
Total DIRECT Expenses	(1,800,903)	(7,326,616)	(7,259,147)
Other ALLOCATED Expenses (Provide detail)			
Rent/Utilities	139,466	537,634	568,844
Printing	61,349	141,274	141,915
Postage	188,267	373,155	413,518
Legal Fees	464,113	745,164	189,293
Outside Services	(317,509)	743,642	954,943
Board & Committee Fees	70,445	170,130	89,638
Survey Fees	(46,695)	54,527	65,330
Telephone/Beepers/Cellular Phones	69,691	232,273	240,337
Books & Subscriptions	44,316	130,040	82,708
Minor Equipment	45,064	99,858	43,690
Computer Supplies	0	0	289
Dues, Fees & Licenses	31,910	229,951	356,822
Education & Seminars	6,991	35,637	58,092
Meals & Entertainment	8,899	30,659	28,996
Office Supplies	29,704	96,042	129,773
Travel	21,462	79,554	78,995
Miscellaneous Expense	28,902	158,185	279,965
Franchise, Excise & Property Taxes & Sales/Use Tax	(3,277)	139,083	108,812
Insurance	130,147	414,930	387,966
Leases & Rentals of equipment	50,501	128,625	145,200
Repairs/Maintenance Agreements	225,744	524,947	538,554
Relocation Expense Total	(6,045)	9,937	13,692
Training and Orientation Total	0	0	0
Temp/Contract Personnel	114,975	547,674	873,620
Covenant Management Fees	442,483	1,703,691	1,468,156
Total ALLOCATED Expenses	1,800,903	7,326,615	7,259,148
36. TOTAL ADMINISTRATION (Lines 31 to 36)	(0)	(0)	0
FIT & Excise Tax	2,209,893	2,209,893	1,295,965
37. Total Other Expenses:	2,209,893	2,209,893	1,295,965
38. TOTAL EXPENSES (Lines 30 and 37 and 37A)	1,728,228	1,343,273	1,845,141
39. NET INCOME (LOSS) (Line 4 less Line 38)	2,346,099	5,074,067	3,214,571

Report #2A: TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES

	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Member Months	398,364	1,585,507	1,576,120
REVENUES:			
1. TennCare Capitation	53,191,605	215,259,968	241,142,939
2. Investment	565,475	2,387,530	3,617,182
3. Other Revenue	0	0	135
State Admin Revenue	3,509,273	4,031,669	1,249,104
IBNR / Capitation Revenue Receivable	2,481,884	32,463,841	18,842,234
Premium Tax	1,087,222	3,325,980	(322,160)
4. TOTAL REVENUES (Lines 1 to 3)	60,835,459	257,468,988	264,529,434
EXPENSES:			
Medical and Hospital Services:			
5. Capitated Physician Services	208,579	1,455,699	1,657,105
6. Fee-For-Service Physician Services	5,698,545	24,758,072	21,152,510
7. Inpatient Hospital Services	31,224,768	144,301,186	126,698,899
8. Outpatient Services	19,635	61,435	3,336,119
9. Emergency Room Services	2,916,666	12,879,752	11,477,633
10. Mental Health Services	14,036	62,820	18,409
11. Dental Services (Capitated & FFS)	2,719	7,730	12,498
12. Vision Services (Capitated , FFS & Opthamology)	235,102	864,314	823,292
13. Pharmacy Services (Capitated & FFS)	(19,110)	(49,587)	36,872,922
14. Home Health Services	122,087	434,412	439,080
15. Chiropractic Services	0	0	0
16. Radiology Services	49,429	200,976	156,046
17. Laboratory Services	7,844,254	33,972,466	24,737,079
18. Durable Medical Equipment Services	1,815,514	7,805,932	6,911,188
19. Transportation Services (Capitated)	1,227,079	5,003,592	4,500,642
20. Outside Referrals	0	0	0
21. Medical Incentive Pool and Withhold Adjustments	0	0	0
22. Occupancy, Depreciation, and Amortization	0	0	0
23. Other Medical and Hospital Services (Provide Detail)			
Surgery - Orthopedic - FFS Office	0	0	0
MCO Delegated Services	0	0	0
Allergy & Immunology FFS Office & Other	1,744,513	6,216,562	6,972,921
Counselors/Therapists	0	0	0
Otolaryngology - FFS Office	382,742	1,455,865	1,206,908
Anesthesiology - FFS Hosp & Other	838,515	3,424,862	3,255,732
Gastroenterology	24,945	86,098	30,454
Preventive Medicine	783,930	3,335,487	3,149,797
Ped Emergency Medicine - FFS Hospital	0	0	0
Miscellaneous	54,245	952,934	284,075
IBNR	0	0	0
Risk Share	246,648	246,648	2,589,946
24. Subtotal (Lines 5 to 23)	55,434,841	247,477,255	256,283,255
25. Reinsurance Expenses Net of Recoveries	0	0	0
LESS:			
26. Copayments	0	0	0
27. Subrogation	168,520	533,153	132,638
27a Recoveries	74,079	1,129,987	950,712
28. Coordination of Benefits	0	0	0
29. Subtotal (Lines 26 to 28)	242,599	1,663,140	1,083,350
30. TOTAL MEDICAL AND HOSPITAL (Lines 24 and 25 less 29)	55,192,242	245,814,115	255,199,905



Report #2A (Continued): TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES			
	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Administration:			
31. Compensation (Including Allocated Costs)	2,050,341	8,899,639	9,711,431
32. Marketing (Including Allocated Costs)	9,865	16,074	6,931
33. Premium Tax Expense	1,191,239	4,784,756	5,259,768
34. Occupancy, Depreciation and Amortization (Including Allocated Costs)	218,685	847,432	948,249
35. Other Administration (Provide detail)	0		
	0		
Printing	6,355	178,877	271,087
Rent/Utilities	0	0	0
Franchise, Excise & Property Taxes	0	0	0
Postage	106,220	300,464	153,139
Legal Fees	4,473	20,953	6,993
Liquidated Damages	300,000	1,207,740	1,203,280
Outside Services	124,105	449,580	329,948
Board & Committee Fees	0	0	0
Auditing, actuarial and other consulting services	0	0	0
Books & Subscriptions	972	1,929	3,328
Dues, Fees & Licenses	156	4,015	53,148
Education & Seminars	(150)	2,648	2,134
Meals & Entertainment	202	1,363	1,627
Office Supplies	925	1,804	1,622
Minor Equipment	0	0	22
Travel	142	4,783	6,068
Wellness Program	0	0	0
Leases & Rentals of equipment	0	0	0
Repairs/Maintenance Agreements	0	387	902
Telephone/Beepers/Cellular Phones	23	140	124
Temp/Contract Personnel	1,156	14,801	56,759
Provision for Loss Contracts	0	0	0
Risk Banding Reserve	0	0	(4,053,559)
Program Run Out Expense	0	0	0
State Admin	(1,691,596)	(16,660,565)	(17,059,131)
Miscellaneous Expense	(3,036,790)	(3,032,519)	655,976
Total DIRECT Expenses	(713,677)	(2,955,699)	(2,440,154)
Other ALLOCATED Expenses (Provide detail)			
Rent/Utilities	139,466	537,634	568,844
Printing	61,348	141,274	141,915
Postage	188,267	373,155	413,518
Legal Fees	464,113	745,164	189,293
Outside Services	(317,509)	743,642	954,943
Board & Committee Fees	70,444	170,130	89,638
Survey Fees	(46,695)	54,527	65,330
Telephone/Beepers/Cellular Phones	69,691	232,273	240,337
Books & Subscriptions	44,316	130,040	82,708
Minor Equipment	45,064	99,858	43,690
Computer Supplies	0	0	289
Dues, Fees & Licenses	31,911	229,951	356,822
Education & Seminars	6,991	35,637	58,092
Meals & Entertainment	8,899	30,659	28,996
Office Supplies	29,703	96,042	129,773
Travel	21,462	79,554	78,995
Miscellaneous Expense	28,902	158,185	279,964
Franchise, Excise & Property Taxes & Sales/Use Tax	(3,277)	139,083	108,812
Insurance	130,147	414,930	387,966
Leases & Rentals of equipment	50,501	128,625	145,200
Repairs/Maintenance Agreements	225,744	524,947	538,554
Relocation Expense Total	(6,045)	9,937	13,692
Training and Orientation Total	0	0	0
Temp/Contract Personnel	114,976	547,674	873,620
Covenant Management Fees	442,482	1,703,691	1,468,156
Total ALLOCATED Expenses	1,800,901	7,326,612	7,259,147
36. TOTAL ADMINISTRATION (Lines 31 to 36)	1,087,225	4,370,914	4,818,993
FIT & Excise Tax	2,209,893	2,209,893	1,295,965
37. Total Other Expenses:	2,209,893	2,209,893	1,295,965
38. TOTAL EXPENSES (Lines 30 and 37 and 37A)	58,489,360	252,394,922	261,314,863
39. NET INCOME (LOSS) (Line 4 less Line 38)	2,346,100	5,074,067	3,214,571

CASH FLOW

		1	2
		Current Year	Prior Year
Cash from Operations			
1.	Premiums collected net of reinsurance .....		2,713,815
2.	Net investment income .....	2,683,279	3,706,687
3.	Miscellaneous income .....	4,031,669	1,249,239
4.	Total (Lines 1 through 3) .....	6,714,948	7,669,741
5.	Benefit and loss related payments .....	(445,110)	2,233,153
6.	Net transfers to Separate, Segregated Accounts and Protected Cell Accounts .....		
7.	Commissions, expenses paid and aggregate write-ins for deductions .....	1,723,081	26,475,929
8.	Dividends paid to policyholders .....		
9.	Federal and foreign income taxes paid (recovered) \$..... net of tax on capital gains (losses) .....		
10.	Total (Lines 5 through 9) .....	1,277,971	28,709,082
11.	Net cash from operations (Line 4 minus 10) .....	5,436,977	(21,039,341)
Cash from Investments			
12.	Proceeds from investments sold, matured or repaid:		
12.1	Bonds .....	19,014,257	45,967,675
12.2	Stocks .....		
12.3	Mortgage loans .....		
12.4	Real estate .....		
12.5	Other invested assets .....		
12.6	Net gains or (losses) on cash, cash equivalents and short-term investments .....		
12.7	Miscellaneous proceeds .....		
12.8	Total investment proceeds (Lines 12.1 to 12.7) .....	19,014,257	45,967,675
13.	Cost of investments acquired (long-term only):		
13.1	Bonds .....	30,169,646	22,945,277
13.2	Stocks .....		
13.3	Mortgage loans .....		
13.4	Real estate .....		
13.5	Other invested assets .....		
13.6	Miscellaneous applications .....		
13.7	Total investments acquired (Lines 13.1 to 13.6) .....	30,169,646	22,945,277
14.	Net increase (decrease) in policy loans and premium notes .....		
15.	Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14) .....	(11,155,388)	23,022,398
Cash from Financing and Miscellaneous Sources			
16.	Cash provided (applied):		
16.1	Surplus notes, capital notes .....		
16.2	Capital and paid in surplus, less treasury stock .....		
16.3	Borrowed funds .....		
16.4	Net deposits on deposit-type contracts and other insurance liabilities .....		
16.5	Dividends to stockholders .....		
16.6	Other cash provided (applied) .....		
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) .....		
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS			
18.	Net change in cash and short-term investments (Line 11, plus Lines 15 and 17) .....	(5,718,411)	1,983,057
19.	Cash and short-term investments:		
19.1	Beginning of year .....	5,759,406	3,776,349
19.2	End of year (Line 18 plus Line 19.1) .....	40,995	5,759,406

Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

20.0001	.....		
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**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 3 - ANALYSIS OF EXPENSES**

		Claim Adjustment Expenses		3	4	5
		1	2			
		Cost Containment Expenses	Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1.	Rent (\$..... for occupancy of own building) .....			485,066		485,066
2.	Salaries, wages and other benefits .....	2,354,613	1,810,924	4,170,480		8,336,017
3.	Commissions (less \$..... ceded plus \$..... assumed) .....					
4.	Legal fees and expenses .....			766,117		766,117
5.	Certifications and accreditation fees .....					
6.	Auditing, actuarial and other consulting services .....	118,629	18,455	507,901		644,986
7.	Traveling expenses .....	22,747	2,944	58,645		84,336
8.	Marketing and advertising .....	110		17,253		17,363
9.	Postage, express and telephone .....	3,421	645,392	99,746		748,558
10.	Printing and office supplies .....	8,536	125,065	440,791		574,392
11.	Occupancy, depreciation and amortization .....			847,432		847,432
12.	Equipment .....	295	174	99,389		99,858
13.	Cost or depreciation of EDP equipment and software .....					
14.	Outsourced services including EDP, claims, and other services .....	55,718	359,667	366,182		781,567
15.	Boards, bureaus and association fees .....	12,389		157,741		170,130
16.	Insurance, except on real estate .....			414,930		414,930
17.	Collection and bank service charges .....		1,859	2,564		4,423
18.	Group service and administration fees .....					
19.	Reimbursements by uninsured accident and health plans .....					
20.	Reimbursements from fiscal intermediaries .....					
21.	Real estate expenses .....					
22.	Real estate taxes .....					
23.	Taxes, licenses and fees:					
23.1	State and local insurance taxes .....					
23.2	State premium taxes .....			413,846		413,846
23.3	Regulator authority licenses and fees .....					
23.4	Payroll taxes .....	159,628	128,584	275,410		563,622
23.5	Other (excluding federal income and real estate taxes) .....			139,083	77,360	216,443
24.	Investment expenses not included elsewhere .....					
25.	Aggregate write-ins for expenses .....	(2,736,086)	(3,093,064)	(9,262,577)		(15,091,727)
26.	Total expenses incurred (Lines 1 to 25) .....	0	0	0	77,360	(a) 77,360
27.	Less expenses unpaid December 31, current year .....		30,000	9,805,245		9,835,245
28.	Add expenses unpaid December 31, prior year .....		11,290	11,498,675		11,509,965
29.	Amounts receivable relating to uninsured accident and health plans, prior year .....					
30.	Amounts receivable relating to uninsured accident and health plans, current year .....					
31.	Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) ..	0	(18,710)	1,693,430	77,360	1,752,080
<b>DETAILS OF WRITE-INS</b>						
2501.	Property & Franchise Taxes .....					
2502.	Dues/Fees/Licenses .....	2,956	21	230,327		233,305
2503.	Computer Supplies .....					
2598.	Summary of remaining write-ins for Line 25 from overflow page .....	(2,739,043)	(3,093,085)	(9,492,904)		(15,325,031)
2599.	Totals (Lines 2501 through 2503 + 2598)(Line 25 above) .....	(2,736,086)	(3,093,064)	(9,262,577)		(15,091,727)

(a) Includes management fees of \$..... to affiliates and \$..... to non-affiliates.

**EXHIBIT OF NONADMITTED ASSETS**

		1	2	3
		Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1.	Bonds (Schedule D) .....			
2.	Stocks (Schedule D):			
2.1	Preferred stocks .....			
2.2	Common stocks .....			
3.	Mortgage loans on real estate (Schedule B):			
3.1	First liens .....			
3.2	Other than first liens .....			
4.	Real estate (Schedule A):			
4.1	Properties occupied by the company .....			
4.2	Properties occupied by the production of income .....			
4.3	Properties held for sale .....			
5.	Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA) .....			
6.	Contract loans .....			
7.	Other invested assets (Schedule BA) .....			
8.	Receivable for securities .....			
9.	Aggregate write-ins for invested assets .....			
10.	Subtotals, cash and invested assets (Lines 1 to 9) .....			
11.	Invested income due and accrued .....			
12.	Premium and considerations:			
12.1	Uncollected premiums and agents' balances in the course of collection .....			
12.2	Deferred premiums, agents' balances and installments booked but deferred and not yet due .....			
12.3	Accrued retrospective premiums .....			
13.	Reinsurance:			
13.1	Amounts recoverable from reinsurers .....			
13.2	Funds held by or deposited with reinsured companies .....			
13.3	Other amounts receivable under reinsurance contracts .....			
14.	Amounts receivable relating to uninsured plans .....			
15.1	Current federal and foreign income tax recoverable and interest thereon .....			
15.2	Net deferred tax asset .....			
16.	Guaranty funds receivable or on deposit .....			
17.	Electronic data processing equipment and software .....			
18.	Furniture and equipment, including health care delivery assets .....			
19.	Net adjustment in assets and liabilities due to foreign exchange rates .....			
20.	Receivable form parent, subsidiaries and affiliates .....	36,464	36,464	0
21.	Health care and other amounts receivable .....			
22.	Other assets nonadmitted .....			
23.	Aggregate write-ins for other than invested assets .....			
24.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23) .....	36,464	36,464	0
25.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....			
26.	Total (Lines 24 and 25) .....	36,464	36,464	0
DETAILS OF WRITE-INS				
0901	.....			
0902	.....			
0903	.....			
0998.	Summary of remaining write-ins for Line 9 from overflow page .....			
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above) .....			
2301	.....			
2302	.....			
2303	.....			
2398.	Summary of remaining write-ins for Line 23 from overflow page .....			
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) .....			

**EXHIBIT 5 - AMOUNTS DUE FROM PARENT, SUBSIDIARIES AND AFFILIATES**

1 Name of Affiliate	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	Admitted	
						7 Current	8 Non-Current
<b>Individually listed receivables</b>							
Preferred Health Partnership Companies, Inc - Corp Rec .....	1,871,019	640,516				1,871,019	640,516
Preferred Health Partnership Inc. - I/C FIT Rec .....				36,464	36,464		
0199999 Total - Individually listed receivables .....	1,871,019	640,516		36,464	36,464	1,871,019	640,516
0299999 Receivables not inidividually listed .....							
0399999 Total gross amounts receivable .....	1,871,019	640,516		36,464	36,464	1,871,019	640,516

**Notes to Financial Statement**

1. Summary of Significant Accounting Poicies

A. Accounting Practices

The financial statements of Preferred Health Partnership of Tennessee, Inc. are presented on the basis of accounting practices prescribed or permitted by the NAIC Accounting Practices and Procedures manual and the state of Tennessee Department of Commerce and Insurance.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with the Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

The plan does not receive pemiums from the State; the plan does receive a monthly capitation check to pay for the claims and administrative expenses of the company. This capitation revenue is recognized as income in the period it is received, as it exceeds administrative expenses by direction of the TennCare Bureau. Expenses incurred in connection with aquiring new insurance business are charged to operations as incurred.

In addition, the company uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds are stated at amoritized cost using the straight-line method.
- (3) Common stock is stated at par.
- (4) Not applicable
- (5) Not applicable
- (6) Not applicable
- (7) Not applicable
- (8) Not applicable
- (9) Not applicable
- (10) Anticipated investment income is not a factor in the premium deficiency calculations.
- (11) Liabilities for losses and loss/claim adjustment expenses include an amount determined based on past experience for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods of making such estimates and for establising the resulting liability is reviewed on a monthly basis and any adjustments are reflected in the period determined.
- (12) Not applicable

2. Accounting Changes and Corrections of Errors

- A. No errors or changes in accounting principles have occurred.
- B. The initial implementation of Codification did not change the company's financial statement basis.

3. Business Combinations and Goodwill

Not applicable

4. Discontinued Operations

Not applicable

5. Investments

Not applicable

6. Joint Ventures, Partnerships, and Limited Liability Companies

Not applicable

7. Investment Income

All investment income due and accrued was admitted.

8. Derivative Instruments

Not applicable

9. Income Taxes

A. The components of the net DTA recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

	Dec. 31, 2004	Jan. 1, 2004
Total of gross deferred tax assets	12,744,289	14,607,445
Total of deferred tax liabilities	(43,075)	(61,935)
Net deferred tax assets	12,701,214	14,545,510
Deferred tax asset nonadmitted	(12,701,214)	(14,545,510)
Net admitted deferred tax asset	-	-
(Increase) decrease in nonadmitted asset	1,844,296	

B. Deferred tax liabilities for 2004 are not recognized for investment discount accretion in the amount of \$43,075. There were no temporary differences due to investments in foreign subsidiaries or corporations.

C. The current provision for income tax expense is \$2,209,893. The \$1,844,296 decrease in deferred tax assets is primarily due to the elimination of state deferred tax assets. There are no deferred provisions for income taxes in 2004 or 2003 due to the utilization of net operating loss carry-forwards and nonadmitted deferred tax assets. Effective December 31, 2003, companies who pay gross premiums are no longer required to file Tennessee franchise and excise tax returns. Therefore, all deferred state tax assets were removed in 2004, as the Company is no longer filing state income tax returns.

D. The significant book to tax adjustments were as follows:

	Amount:	Tax Effect:
Income before taxes	7,283,960	2,476,546
Book over Tax Reserves	(784,275)	(266,653)
Taxable Income	6,499,685	2,209,893

E. There are no operating loss or tax credits to carry forward

F. (1) The Plan's federal income tax return is consolidated with the following entities:

PHP Companies, Inc  
Preferred Health Partnership, Inc.  
Cariten Health Plan, Inc.  
Cariten Insurance Company

(2) Tax payments and the recoupment (in the event of future losses) of taxes paid pursuant to the tax allocation agreement are computed on a separate company basis as determined in accordance with the tax allocation agreement.

10. Information concerning Parent, Subsidiaries, and Affiliates

A. The Plan is a wholly-owned subsidiary of PHP Companies, Inc., a holding company domiciled in the State of Tennessee. PHP Companies, Inc. is a wholly-owned subsidiary of Covenant Health, a non-profit organization domiciled in the State of Tennessee. The holding company group consist of the following companies: Preferred Health Partnership, Inc., Cariten Health Plan, Inc., Preferred Health Partnership of Tennessee, Inc., and Cariten Insurance Company.

B. The Plan periodically transfers cash to the parent, PHP Companies, Inc., to reimburse for cost allocations and Plan expenses recorded on the Plan's behalf by the parent. The following amounts were transferred to the parent during 2004: (1) \$1,000,000 on 2/17/04 (2) \$1,000,000 on 3/5/04 (3) \$1,000,000 on 3/19/04 (4) \$1,000,000 on 3/25/04 (5) \$1,000,000 on 5/10/04 (6) \$1,000,000 on 6/11/04 (7) \$1,000,000 on 7/15/04 (8) \$1,000,000 on 7/23/04 (9) \$4,000,000 on 8/12/04 (10) \$1,000,000 on 10/18/04 (11) \$4,938,500 on 11/10/04 (12) \$1,725,000 on 12/23/04

C. The Plan transferred \$19,663,500 to PHP Companies and PHP Companies transferred \$1,292,276 to the plan. Cost allocations received from the parent company totaled \$16,170,728. Plan expenses paid by the parent on behalf of the plan totaled \$1,313,372.87.

D. As of December 31, 2004 the Plan has a receivable from PHP Companies, Inc. in the amount of \$4,721,428.45 and a receivable from Preferred Health Partnership, Inc. in the amount of \$36,463.60.

E. Not applicable

F. The parent company of the Plan accumulates operating costs and allocates these expenses monthly to the operating entities listed above. Allocations are based proportionally on the membership counts of the companies listed above with government program memberships doubled, due to higher administration costs.

G-J. Not applicable

11. Debt

Not applicable

12. Retirement Plans, Deferred Compensation, Post employment benefits and Compensated Absences and Other Postretirement Benefit Plans.
- Not applicable
13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations
- (1) The Plan has 1,000 shares of \$1 par common stock authorized and outstanding. All stock is owned by the parent company, PHP Companies, Inc.

(2) Not applicable

(3) No dividends are paid

(4) Not applicable

(5) No restrictions are placed on surplus.

(6) Not applicable

(7) No stock is held by the Company.

(8) Not applicable

(9) Surplus was reduced by \$85,384 due to nonadmitted assets.

(10) Not applicable

(11) Not applicable

(12) Not applicable
14. Contingencies
- Not applicable
15. Leases
- Not applicable
16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk
- Not applicable
17. Sales, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities
- Not applicable
18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans
- Not applicable
19. Direct Premium Written/Produced by Managing General Agents/Third Party Adminstrators
- Not applicable
20. September 11 Events
- Not applicable
21. Other Items
- Not applicable
22. Events Subsequent
- Not applicable
23. Reinsurance
- Not applicable
24. Retrospectively Rated Contracts & Contracts Subject to Redetermination
- Not applicable



**Notes to Financial Statement**

25. Change in Incurred Claims and Claim Adjustment Expenses

The reserve for incurred claims is calculated based on a percentage of completion factor. This factor is determined based on actuarial projections of trends in service.

26. Intercompany Pooling Arrangements

Not applicable

27. Structured Settlements

Not applicable

28. Health Care Receivables

Not applicable

29. Participating Policies

Not applicable

30. Premium Deficiency Reserves

As of December 31, 2004, the Company had liabilities of \$10,826,641 related to premium deficiency reserves. The Company did not consider anticipated investment income when calculating its premium deficiency reserves.

31. Anticipated Salvage and Subrogation

Not applicable



**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**  
**Due April 1**

For the year ended December 31, 2004

Of The Preferred Health Partnership of Tennessee, Inc.  
Address (City, State, Zip Code) Knoxville , TN, 37932  
NAIC Group Code 1253 NAIC Company Code 95749 Employer's ID Number 62-1546662

The Investment Risk Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.  
Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ ..... 62,005,506

1	2	3	4
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2. Ten largest exposures to a single issuer/borrower/investment.			
2.01 REGIONS FINANCIAL CORP 758940 .....	Bond .....	2,508,604 .....	4.046 .....
2.02 DAIMLER CHRYSLER 233835 .....	Bond .....	1,562,453 .....	2.520 .....
2.03 1ST DATA CORP 319963 .....	Bond .....	1,543,990 .....	2.490 .....
2.04 US BK NATL ASSN CIN OH 90331 .....	Bond .....	1,239,932 .....	2.000 .....
2.05 GOLDMAN SACHS GRP INC 38141 .....	Bond .....	1,107,876 .....	1.787 .....
2.06 LEHMAN BROS HLDGS INC 52517 .....	Bond .....	1,075,273 .....	1.734 .....
2.07 BOEING CAP CORP 097014 .....	Bond .....	1,040,446 .....	1.678 .....
2.08 KNOX CNTY TENN HLTH EDL 499523 .....	Bond .....	1,000,000 .....	1.613 .....
2.09 GEN ELEC CAP CORP 36962 .....	Bond .....	994,123 .....	1.603 .....
2.10 BANKAMERICA CORP 097014 .....	Bond .....	856,092 .....	1.381 .....

NAIC Rating	1 Amount	2 Percent
3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.		
<b>Bonds</b>		
3.01 NAIC-1 .....	52,942,332 .....	85.383 .....
3.02 NAIC-2 .....	5,557,597 .....	8.963 .....
3.03 NAIC-3 .....	.....	.....
3.04 NAIC-4 .....	.....	.....
3.05 NAIC-5 .....	.....	.....
3.06 NAIC-6 .....	.....	.....
<b>Preferred Stocks</b>		
3.07 P/RP-1 .....	.....	.....
3.08 P/RP-2 .....	.....	.....
3.09 P/RP-3 .....	.....	.....
3.10 P/RP-4 .....	.....	.....
3.11 P/RP-5 .....	.....	.....
3.12 P/RP-6 .....	.....	.....

4. Assets held in foreign investments:  
4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]

	1 Amount	2 Percent
4.02 Total admitted assets held in foreign investments .....	.....	.....
4.03 Foreign-currency-denominated investments .....	.....	.....
4.04 Insurance liabilities denominated in that same foreign currency .....	.....	.....

If response, to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)**

NAIC Sovereign Rating		1 Amount	2 Percent
5.	Aggregate foreign investment exposure categorized by NAIC sovereign rating:		
5.01	Countries rated NAIC-1 .....	.....	.....
5.02	Countries rated NAIC-2 .....	.....	.....
5.03	Countries rated NAIC-3 or below .....	.....	.....

NAIC Sovereign Rating		1 Amount	2 Percent
6.	Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:		
Countries rated NAIC-1:			
6.01	.....	.....	.....
6.02	.....	.....	.....
Countries rated NAIC-2:			
6.03	.....	.....	.....
6.04	.....	.....	.....
Countries rated NAIC-3 or below:			
6.05	.....	.....	.....
6.06	.....	.....	.....

Description		1 Amount	2 Percent
7.	Aggregate unhedged foreign currency exposure .....	.....	.....

NAIC Sovereign Rating		1 Amount	2 Percent
8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:		
8.01	Countries rated NAIC-1 .....	.....	.....
8.02	Countries rated NAIC-2 .....	.....	.....
8.03	Countries rated NAIC-3 or below .....	.....	.....

NAIC Sovereign Rating		1 Amount	2 Percent
9.	Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:		
Countries rated NAIC-1:			
9.01	.....	.....	.....
9.02	.....	.....	.....
Countries rated NAIC-2:			
9.03	.....	.....	.....
9.04	.....	.....	.....
Countries rated NAIC-3 or below:			
9.05	.....	.....	.....
9.06	.....	.....	.....

1 Issuer	2 NAIC Rating	3 Amount	4 Percent
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
10.01 .....	.....	.....	.....
10.02 .....	.....	.....	.....
10.03 .....	.....	.....	.....
10.04 .....	.....	.....	.....
10.05 .....	.....	.....	.....
10.06 .....	.....	.....	.....
10.07 .....	.....	.....	.....
10.08 .....	.....	.....	.....
10.09 .....	.....	.....	.....
10.10 .....	.....	.....	.....

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)**

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
- 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?

Yes[X] No[ ]
- If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

	1	2
	Amount	Percent
11.02 Total admitted assets held in Canadian Investments ..	.....	.....
11.03 Canadian-currency-denominated investments .....	.....	.....
11.04 Canadian-denominated insurance liabilities .....	.....	.....
11.05 Unhedged Canadian currency exposure .....	.....	.....

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
- 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?

Yes[X] No[ ]
- If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
	Contractual Sales Restrictions	Amount	Percent
12.02 Aggregate statement value of investments with contractual sales restrictions .....	.....	.....	.....
Largest 3 investments with contractual sales restrictions:			
12.03 .....	.....	.....	.....
12.04 .....	.....	.....	.....
12.05 .....	.....	.....	.....

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:
- 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes[X] No[ ]
- If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1	2	3
	Name of Issuer	Amount	Percent
	Assets held in equity interests:		
13.02	.....	.....	.....
13.03	.....	.....	.....
13.04	.....	.....	.....
13.05	.....	.....	.....
13.06	.....	.....	.....
13.07	.....	.....	.....
13.08	.....	.....	.....
13.09	.....	.....	.....
13.10	.....	.....	.....
13.11	.....	.....	.....

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:  
14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]  
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

1 Investment Category		2 Amount	3 Percent
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities .....		
	Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03	.....		
14.04	.....		
14.05	.....		

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:  
15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]  
If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

1 Investments in General Partnerships		2 Amount	3 Percent
15.02	Aggregate statement value of investments held in general partnership interests .....		
	Largest 3 investments with contractual sales restrictions:		
15.03	.....		
15.04	.....		
15.05	.....		

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:  
16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]  
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1 Type (Residential, Commercial, Agricultural)		2 Amount	3 Percent
Total admitted assets held in Mortgage Loans			
16.02	.....		
16.03	.....		
16.04	.....		
16.05	.....		
16.06	.....		
16.07	.....		
16.08	.....		
16.09	.....		
16.10	.....		
16.11	.....		

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)**

Description	Loans	
	2 Amount	3 Percent
Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:		
16.12 Construction loans .....	.....	.....
16.13 Mortgage loans over 90 days past due .....	.....	.....
16.14 Mortgage loans in the process of foreclosure .....	.....	.....
16.15 Mortgage loans foreclosed .....	.....	.....
16.16 Restructured mortgage loans .....	.....	.....

Loan-to-Value	Residential		Commercial		Agricultural	
	1 Amount	2 Percent	3 Amount	4 Percent	5 Amount	6 Percent
17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:						
17.01 Above 95% .....	.....	.....	.....	.....	.....	.....
17.02 91% to 95% .....	.....	.....	.....	.....	.....	.....
17.03 81% to 90% .....	.....	.....	.....	.....	.....	.....
17.04 71% to 80% .....	.....	.....	.....	.....	.....	.....
17.05 Below 70% .....	.....	.....	.....	.....	.....	.....

18. Amounts and percents of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
- 18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets?

Yes[X] No[ ]
- If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

1 Description	2 Amount	3 Percent
Assets held in the 5 Largest Real Estate Holdings:		
18.02 .....	.....	.....
18.03 .....	.....	.....
18.04 .....	.....	.....
18.05 .....	.....	.....
18.06 .....	.....	.....

Description	At Year-end		At End of Each Quarter		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
19. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:					
19.01 Securities lending agreements (do not include assets held as collateral for such transactions) .....	.....	.....	.....	.....	.....
19.02 Repurchase agreements .....	.....	.....	.....	.....	.....
19.03 Reverse repurchase agreements .....	.....	.....	.....	.....	.....
19.04 Dollar repurchase agreements .....	.....	.....	.....	.....	.....
19.05 Dollar reverse repurchase agreements .....	.....	.....	.....	.....	.....

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)**

Description		Owned		Written	
		1 Amount	2 Percent	3 Amount	4 Percent
20.	Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:				
20.01	Hedging .....				
20.02	Income generation .....				
20.03	Other .....				

Description		At Year-End		Amount at End of Each Quarter		
		Amount 1	Percent 2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
21.	Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:					
21.01	Hedging .....					
21.02	Income generation .....					
21.03	Replications .....					
21.04	Other .....					

Description		At Year-End		Amount at End of Each Quarter		
		Amount 1	Percent 2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.	Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:					
22.01	Hedging .....					
22.02	Income generation .....					
22.03	Replications .....					
22.04	Other .....					



**Statement of Actuarial Opinion**  
**Actuarial Certification**  
**Preferred Health Partnership of Tennessee, Inc.**  
**Actuarial Liabilities as of December 31, 2004**

I, Mark S. Alhanti, am a consultant with the firm of Towers Perrin. I am a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries and meet the qualification standards for rendering opinions on Health Maintenance Organizations’ and Health Plans’ actuarial liabilities. I have been retained by Preferred Health Partnership of Tennessee, Inc. (the Company) to render an opinion on their December 31, 2004 actuarial liabilities.

I have undertaken an examination of the assumptions and methods used in developing the actuarial liabilities shown in the Company’s December 31, 2004 annual statement prepared for filing with the State of Tennessee regulatory officials. These amounts are shown below:

Claims Unpaid (Page 3, Line 1)	\$1,000,000
Accrued Medical Incentive Pool and Bonus Payments (Page 3, Line 2)	\$0
Unpaid Claims Adjustment Expenses (Page 3, Line 3)	\$30,000
Aggregate Policy Reserves (Page 3, Line 4)	\$10,826,641
Aggregate Health Claim Reserves (Page 3, Line 7)	\$0
Experience Rated Refund	\$0
Actuarial Liabilities included in Page 3, Line 21	\$14,082,990

I have used the traditional development methodology in arriving at my estimate of the liability for claims unpaid at December 31, 2004. This method is based on accepted actuarial standards and sound actuarial principles.

I have reviewed Page 11 (Underwriting and Investment Exhibit – Part 2b.) This schedule was prepared consistent with Section 5.14, *Follow Up Studies* contained in Actuarial Standard of Practice No. 5, Incurred Health Claim Liabilities.

It is my opinion that the actuarial liabilities shown above:

1. are in accordance with accepted actuarial standards, consistently applied and are fairly stated in accordance with sound actuarial principles,
2. are based on actuarial assumptions relevant to contract provisions and are appropriate to the purpose for which the statement was prepared,
3. meet the requirements of the laws of the State of Tennessee,
4. make good and sufficient provision for all unpaid claims and other actuarial liabilities of the Company under the terms of its contracts and arrangements,
5. are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the proceeding year-end, and
6. include appropriate provision for all actuarial items that ought to be established.



## Statement of Actuarial Opinion

In arriving at my opinion I have relied on data prepared by Mr. Jeff Collake of the Company (see reliance letter attached.) In other respects, my examination included such review of the underlying assumptions and methods used and such tests of the calculations as I considered necessary.

I considered the need to do cash flow testing in forming my opinion. I determined that cash flow testing was not necessary due to the short-term nature of the liabilities and the insensitivity of the liabilities to economic conditions.

The actuarial methods, considerations and analyses used in forming my opinion are in conformance with the appropriate Standards of Practice and Compliance Guidelines as promulgated by the Actuarial Standards Board and the American Academy of Actuaries.

\_\_\_\_\_  
Mark S. Alhanti, FSA, MAAA

\_\_\_\_\_  
Date



**Amended Statement Cover**

**ANNUAL STATEMENT AMENDMENT**

**OF THE**

**Preferred Health Partnership of Tennessee, Inc.**

**of**

**Knoxville**

**in the state of**

**Tennessee**

**TO THE**

**Insurance Department**

**OF THE STATE OF**

**Tennessee**

**FOR THE YEAR ENDED**  
**DECEMBER 31, 2004**

**Amendment made to correct the following pages: Assets, Liabilities, Statement of Revenue, Report 2A, Consolidated Report 2A, Cash Flow, Underwriting and Investment Exhibit - Part 3, Exhibit of Non-Admitted Assets, Exhibit 5, Notes to Financial Statements, Management's Discussion and Analysis, and Supplemental Investment Risks Interrogatories and to electronically add the Actuarial Statement**





## **Management's Discussion and Analysis**

### **Statement as of December 31, 2004 of the Preferred Health Partnership of Tennessee, Inc. (PHP of Tennessee)**

#### **Supplement of the Annual Statement – Management's Discussion & Analysis**

Preferred Health Partnership of Tennessee, Inc. (the Company) was organized in 1994 as a wholly-owned subsidiary of PHP Companies, Inc. (the Parent). The Company began as a fully funded risk managed care organization under contractual agreement with the State of Tennessee. In July 2002, PHP entered into an ASO non-risk contractual agreement with the State of Tennessee, which spans from July 2002 to December 2005. As under the risk managed plan, the TennCare program provides or arranges for the provision of health care services to members. TennCare pays the Company a monthly administration fee based on the number of enrolled members in the plan. The Company uses these fees to pay for all administration costs incurred to provide medical services. The State is directly responsible for payments of medical services.

#### **FINANCIAL POSITION:**

The financial position of PHP of Tennessee for the year ended December 31, 2004 indicated a gain in capital and surplus of \$5,074,067. The Company's statutory basis assets increased from \$59,027,669 in 2003 to \$62,005,505 in 2004. Three significant changes in assets include an increase in investment activity in Long-Term Bonds, which was offset by decreases in Cash and Receivables from Parent. Bonds increased from \$47,651,741 in 2003 to \$58,499,929 in 2004, while Cash decreased from \$5,759,406 in 2003 to \$40,995 in 2004 and Receivables from Parent decreased from \$4,727,724 in 2003 to \$2,511,535 in 2004. The cash balance at December 2003 and 2002 was accumulated through the normal course of operations and is unencumbered and available for use in the health plan's operations.

Balances listed as due from affiliates are amounts owed to the company in the normal course of business from affiliated entities. All balances are listed at their net realizable value and are reasonably expected to be received.

Total liabilities decreased from \$37,841,106 in 2003 to \$35,744,876 in 2004. The significant change in liabilities include a decrease in Policy Claims Payable and General Expenses due or accrued. Policy Claims Payable decreased from \$1,421,510 in 2003 to \$1,000,000 in 2003 and General Expenses decreased from \$11,498,675 in 2003 to \$9,805,245 in 2004. These decreases are directly correlated with the non-risk contract agreement that the Company has entered with the State of Tennessee.

#### **RESULTS OF OPERATIONS:**

Member-months reported in 2004 totaled 1,585,507, compared to 1,576,120 member-months reported in 2003. This increase is attributable to the reassignment of members from other MCO's in the TennCare Program and the company's decision to focus on its current enrollment in the East Tennessee area. Member-months for the non-risk period totaled 1,585,507, which leaves 0 for the Risk period.

Total Premium Revenue reported for 2004 was \$0 as compared to reported 2003 revenue of \$195,632. Total Medical and Hospital Expenses decreased from \$549,176 in 2003 to \$(866,620) in 2004. These decreases directly correlate to the non-risk contract with the State. Total Claims Adjustment Expenses and total General Administrative Expenses remained at \$0 in 2004. General Administrative Expenses totaled \$16,660,565 before the offset of State Admin Revenues. The company has a management agreement with the parent company, PHP Companies, Inc., to provide management, administrative, marketing and certain clerical functions subject to the review of the Company's Board of Directors.

**Management's Discussion and Analysis**  
**Key Indicators for PHP of Tennessee, Inc. - Risk for PHP of Tennessee**

	<b>2004 Actual</b>	<b>2003 Actual</b>	<b>2002Actual</b>	<b>2001 Actual</b>	<b>2000 Actual</b>
Membership (Member Months)	0	186	683,908	1,314,549	1,078,839
Revenue – Medicaid Title XIX	\$0	\$195,632	\$109,964,306	\$204,781,359	\$155,605,556
Average Capitation PMPM	N/A	N/A	\$160.79	\$155.78	\$144.10
Administration Percent of Premium	N/A	N/A	11.50%	12.34%	12.36%

**CASH FLOW AND LIQUIDITY:**

PHP of Tennessee believes that cash flow and liquidity were adversely affected by the members who were retroactively enrolled in the Medicaid population.